

NRD MINING LTD.

(N.P.L.)

ANNUAL REPORT 1973

Directors and Officers

H. Becker-Fluegel — Director and Chairman

J. Michael Wigley — Director and President

G. Warnock — Director and Vice President

T.J. Donaldson — Director (President, Donaldson Securities Ltd.)

A.C.A. Howe — Director (President, A.C.A. Howe International Ltd.)

George C. Stevens — Assistant Secretary (Partner, Lawrence & Shaw)

Transfer Agents and Registrars

Guaranty Trust Company of Canada — Toronto and Vancouver

Auditors

Riddell, Stead & Co. — Vancouver, Canada

Price Waterhouse & Co. — Tegucigalpa, Honduras

Head Office

535 Thurlow Street, Vancouver, B.C., Canada

Subsidiaries and Affiliates

Alianza Industrial, S.A. — Tegucigalpa, Honduras

Cia. Minera Los Angeles, S.A. — Tegucigalpa, Honduras

National Resources Development, Inc. — Albuquerque,
New Mexico, U.S.A.

National Resources Trading, Inc. — New York, U.S.A.

Dear Shareholder:

We are again pleased to report to you on the growth of your Company's activities, the tempo of which was accelerated after the public issue of one million shares netting the treasury \$500,000 was completed in May of last year. Following that successful issue the shares of the Company were fully listed on the Toronto and Vancouver Stock Exchanges.

Our exploration activities in Canada, the United States and Honduras have made considerable progress resulting in drill targets being established on two properties for this year's program; the Las Animas silver-lead-zinc mine reported a substantial financial improvement; and our participation in an international metals and industrial raw materials trading group was successfully established. Our detailed report on these developments is contained in the Report on Operations and in the Financial Statements included with this Report.

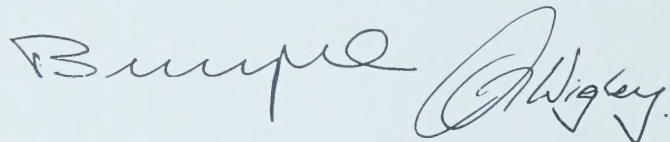
The Company's financial position was still strong at year end with a working capital of more than \$200,000. Additionally the Company is finalizing with a small group of institutional investors a Private Placement of a minimum 266,666 shares at a price of 75 cents per share to raise a minimum \$200,000 for the Treasury. Warrants will be attached to purchase an equal number of shares at prices ranging from \$1.00 per share if exercised prior to April 1, 1975, and increasing in 50 cent annual increments to a price of \$3.00 per share if exercised later than March 31, 1978 and prior to April 1, 1979. The shares placed are being purchased for investment and, at the time of writing, this additional financing is subject to approval of the appropriate regulatory authorities. The additional funds to be provided will enable the Company to pursue the programs reviewed herein, as well as provide it with financial flexibility to act on further opportunities as they are developed.

Particular emphasis will be put on the acquisition of additional gold and silver properties and several such properties are being examined. The Company has also broadened its objectives to include the acquisition of proven oil, gas and coal reserves and

low risk type exploration to develop such reserves. The intent of such programs would be to provide the Company with hard assets and current or short-term cash flow, more quickly and with lower risk than could normally be expected from typically longer term hard rock exploration programs, and thus to establish a balance of risks and opportunities.

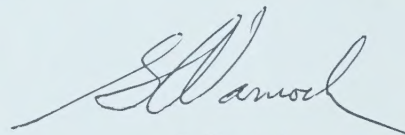
We appreciate your continued support and interest and thank our dedicated group of employees.

Sincerely,
On Behalf of the Board of Directors:

The block contains two handwritten signatures. The signature on the left is for H. Becker-Fluegel, and the signature on the right is for J. Michael Wigley.

H. Becker-Fluegel
Chairman

J. Michael Wigley
President

The block contains a handwritten signature for G. Warnock.

G. Warnock
Vice President

REPORT ON OPERATIONS

HONDURAS – CENTRAL AMERICA

COMPANIA MINERA LOS ANGELES, S.A. (CMLA) (Wholly owned by Alianza Industrial, S.A.)

CMLA operates the Las Animas silver-lead-zinc mine in Honduras. In 1973, 9,763 tons of ore were milled grading 4.57% lead, 10.19% zinc and 5.54 oz. of silver. Lead concentrate production was 1,161 tons and zinc concentrate production was 1,586 tons. Total revenues were \$373,850 (compared with \$422,745 in 1972) and resulted in a net operating loss of \$1,400 (compared with a loss of \$70,110 in 1972). This improved financial result was obtained despite lower production resulting from the continued restricted ore reserve position and reflected the substantial improvement of metal prices.

Toward the end of the year a new potential "ore shoot" was found to the east of the previous mining operations. This has now been partially developed from the 11 level to above the 9 level and has permitted, at least for the time being, an increase of production which at present metal prices should result in profitable operations in 1974. However, the continuity and extent of the "ore shoot" is still not known.

The Las Animas mine is located in a large leased area of 7,300 acres. During the year a program of surface exploration was initiated which consisted initially of a soil sampling program on a grid covering the whole lease area, as a result of which four strong large geochemical anomalies were identified. The most interesting of these lies immediately to the northwest of the producing mine where an area some 1200 feet east-west by 700 feet north-south contains over 1,000 ppm. lead and zinc relative to a background in the area of 15 to 25 ppm. for both lead and zinc, while a much broader area is generally anomalous. This particular anomaly is located in a limestone area and thus represents a potential target for a replacement type orebody similar to the highly profitable Mochito Mine of Rosario Resources in Honduras. Two other major geochemical anomalies were identified

some 6,000 to 7,000 feet north of the mine in an area of general Valle de Angeles sediments and Rosario volcanics similar to the known geology of the mine and a fourth was established on the northeastern property line of the lease area and was again in a limestone environment.

The four anomalies were then further investigated by an IP-resistivity survey conducted in part by the United Nations geological team in Honduras, but principally by Scintrex of Canada. This program confirmed strong induced potential/resistivity anomalies coinciding with the geochemical anomaly to the northwest of the mine and with the two anomalies to the north but failed to confirm the fourth geochemical anomaly to the northeast. As a result the Company is completely satisfied that it has established an excellent target for massive lead-zinc replacement bodies in the first anomaly and eight drill sites have been prepared thereon. Additionally, the other two coincidental geochemical-IP anomalies to the north also represent highly favorable targets for potential Las Animas type small to medium size mines.

It is probable that the scope of the continuing exploration of this area will be of a size such as to make it advantageous to joint venture it with a major mining company and discussions to that end are in progress. In the meantime a program of 2 to 3,000 feet of drilling is being mobilized to better define the nature of the anomalies.

CMLA also holds two other concessions in Honduras, Yuscaran and Opoteca, which at current gold and silver prices are being re-evaluated for their known reserves and additional potential.

ALIANZA INDUSTRIAL, S.A. (ALIANZA) (Wholly owned by NRD Mining)

Alianza has served as a holding company for the shares of CMLA. In consolidation with CMLA it reported a net profit in 1973 of \$12,260.

It has recently also negotiated a lease agreement for the exploration and operation of a gold property in Honduras known

as Tatumbla, which agreement is still subject to approval by the Honduran government. Past work done on Tatumbla from time to time between 1939 and 1950 indicated an open pit deposit containing an estimated 225,000 tons grading 0.2 oz. of gold and 0.5 oz. of silver. The previous work consisted of surface sampling, three shafts, some 370 feet of shallow lateral tunnelling in the mineralized area, and 4,700 feet of churn and diamond drilling. While this grade of mineralization was not economic at then existing gold prices, it now offers the possibility of a small but highly profitable operation. With \$150 gold the estimated recoverable values amount to about \$6.5 million, which would generate a net income after all costs, taxes and royalties, of some \$1,750,000 to be earned over a period of four years by mining at the rate of 60,000 tons per year.

The Company plans to conduct a program of check sampling in the existing workings, additional tunnelling, drilling and bulk sampling, together with metallurgical test work to complete a feasibility study. Alianza has additionally applied for an exploration concession covering 48 square kilometers surrounding the Tatumbla deposit and will conduct a general reconnaissance within the concession area.

UNITED STATES — ARIZONA

NATIONAL RESOURCES DEVELOPMENT INC. (NRD Inc.)

(Wholly owned by NRD Mining)

NRD Inc. maintains a small office in Albuquerque, New Mexico, which serves as a convenient focal point to watch for exploration possibilities in the western United States and Mexico, as well as to provide the senior technical direction for the Canadian and Honduran programs.

In 1972 a general reconnaissance program was started in the area known as Mineral Butte in Pinal County, Arizona, some 40 miles southeast of Phoenix. As a result of this program a theoretical possibility was developed of there being a covered porphyry copper deposit at the projected intersection of the north-east trending

lineament from the extensive low grade Mineral Butte zone and the northwest trending structure from the Poston Butte orebody of Continental Oil Corporation (reportedly several hundred million tons of 0.5% copper). Accordingly, Prospecting Permits were obtained from the State of Arizona covering the area of the projected intersection which was designated Mineral Butte East. A joint venture was then entered into with Quintana Minerals Corporation who drilled four holes on the western portion and one on the northern side of the property. Their drilling on the western portion of the property showed low grade limonite after pyrite and very minor copper in three of the four holes. The joint venture agreement terminated without Quintana having tested the eastern part of the property and NRD Inc. then elected to continue the program.

Prior to mid-January 1974, when work commitments had to be completed on the Permits, NRD Inc. had drilled three rotary drill holes to test bedrock in the portion of the area not tested by Quintana and had run three reconnaissance induced potential/resistivity lines over the area. One line indicated a possible IP anomaly at a depth of more than 1,000 feet and a fill-in IP/resistivity program on either side of that line subsequently confirmed a distinct sulphide conductor representing a possible porphyry copper target of a size larger than 5,000 feet by 3,500 feet.

The next phase of the exploration of the Mineral Butte East property will consist of the drilling of three to five diamond drill holes to a depth of at least 2,000 feet each in order to define the conductor. The Company is currently negotiating with major companies to joint venture the future program.

CANADA

YUKON — ORI GROUP — MINTO AREA

The ORI group of claims is located in the Minto area of the Yukon approximately 3½ miles north of the Silver Standard-Asarco group where drill results over the last two years have

reportedly indicated an orebody of 3.5 million tons of 2.12% copper. The claim group between the Silver Standard group and the ORI group is held by United Keno Hill - Falconbridge - Canadian Superior where they have reported they are drilling what appears to be a significant copper deposit.

Work on the ORI group in the past two seasons has been conducted by Archer Cathro & Associates. While the work done to date has not been positive there is apparently an eastwest fault cutting across the United Keno Hill group which would infer that if the mineralization continues to the north under the ORI group it would be found at a lower depth than to the south of this fault. The Company proposes, therefore, to continue work on the group while better definition of the geology of the area is obtained.

YUKON – MTX GROUP – SUMMIT LAKE

The Company has under option from the Metalex Syndicate the MTX group in the Summit Lake area of the Yukon. This group of claims was the subject of a program of geological reconnaissance and geochemical sampling conducted for the Company by Dolmage, Campbell and Associates in 1973. The work indicated some interesting anomalous zinc areas and the program will probably be continued this year.

BRITISH COLUMBIA – CHILKAT PASS, WHITING LAKE, ROBB LAKE

In the 1973 season the Company conducted a general geological reconnaissance and geochemical sampling program on claim groups located on the east shore of Whiting Lake (the TESS group) and on the Haines Road in the area of Chilkat Pass (the PAM group). The latter program indicated some moderately anomalous areas of lead-zinc values.

The Company also has under option the DOPP group of claims in the Robb Lake area of northern British Columbia, on which previous work had indicated some anomalous zinc areas.

In the light of legislation applicable to the mining industry currently being proposed in British Columbia it is not intended to exercise the option on the DOPP group and until the situation is clarified no further work is planned for the TESS or PAM groups, on both of which sufficient work has been done to satisfy work commitments for at least one additional season.

QUEBEC – ABITIBI WEST

The Company acquired from stakers in 1973 two groups of claims in Celoron Township and Figuery Township in the Abitibi West District of Quebec. These groups have been optioned to Laurasia Resources Ltd. whereby for doing the assessment work on the groups Laurasia may secure a 60% interest therein. Laurasia has completed the assessment work for 1973 - 1974 and has advised the Company that a number of anomalies have been established on the claim groups which warrant continued work.

COMMERCIAL ACTIVITIES

NATIONAL RESOURCES TRADING INC. (NRT) (15% owned by NRD Mining)

As reported last year, the Company participated in the organization and financing of SABEMIN, S.A., a Belgian corporation with headquarters in Brussels. This company, conceived as the European arm of an embryo international trading group, was incorporated mid-1973 with a capital of 18 million Belgian Francs of which 25% or 4.5 million Francs was subscribed in equal amounts by NRD Mining, International Metals Ltd. (Tokyo) and Cometaux, S.A., a subsidiary of the Cie. Bruxelles-Lambert group. The approximate cost of the Company's one-third interest in SABEMIN was \$40,000.

During the last half of 1973, the Western Hemisphere arm of the group was organized by the incorporation of National Resources Trading, Inc., New York, and the group was further

enlarged by the involvement of Continentale des Produits Side-rurgiques (COSID), a Paris affiliate of the Bowater-Ralli group of companies.

The Company is arranging to exchange its shares in SABE-MIN for shares in NRT which will involve an additional cash payment of \$20,000 into the treasury of NRT. Its percentage interest in NRT will then be equal to that held by the other major corporate shareholders, namely COSID, International Metals Ltd. and Interocean - a subsidiary of the Lambert group - with the balance of the equity being held by the managing directors. The paid-in capital of NRT, together with credit guarantees given by the corporate shareholders, provide it with an effective seven-figure capital base and multi-million dollar commodity credit lines have been arranged with commercial banks.

NRT already has substantial business on its books. It acts as agent on behalf of other principals, including the Company's Honduran subsidiary, and is active in trading for its own account of ferrous, base and precious metals.

AUDITORS' REPORT

To The Shareholders,
N R D Mining Ltd. (N.P.L.)

We have examined the consolidated balance sheet of N R D Mining Ltd. (N.P.L.) and its subsidiaries as at December 31, 1973 and the consolidated statements of earnings and deficit, deferred exploration and administrative expenditures and source and application of funds for the year then ended. Our examination included a general review of the accounting records and other supporting evidence as we considered necessary in the circumstances.

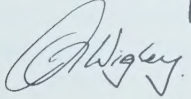
In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1973 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

Ridell, Stead & Co.

RIDDELL, STEAD & CO.

March 13, 1974

N R D MINING LTD. (N.P.L.)
CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 1973

ASSETS			LIABILITIES		
	1973	1972		1973	1972
CURRENT ASSETS			CURRENT LIABILITIES		
Cash	\$139,003	\$ 48,860	Accounts, payable and accrued	\$ 66,447	\$ 42,871
Bonds (Note I)	8,085	8,085	Loan payable	33,813	45,814
Accounts receivable	53,198	23,384		<u>100,260</u>	<u>88,685</u>
Inventory, at the lower of cost and market (Note VIII)	96,273	141,505			
Prepaid expenses	4,172	1,959			
	<u>300,731</u>	<u>223,793</u>	6% NOTE PAYABLE due March 28, 1975 (Note V)	<u>75,000</u>	<u>200,000</u>
INVESTMENT IN AFFILIATE at cost (Note V)	39,921	—	DEFERRED INCOME TAXES (Note VII)	<u>24,500</u>	<u>24,500</u>
FIXED ASSETS at cost net of accumulated depreciation (Note II)	27,088	11,214	PROVISION FOR MINE AND ORE RESERVE DEVELOPMENT	<u>—</u>	<u>9,972</u>
DEFERRED EXPLORATION AND ADMINISTRATIVE EXPENSES	284,500	35,813	CONTINGENT LIABILITY (Note V)		
MINING CLAIMS at cost (Note III)	29,987	37,500			
EXCESS OF COST OVER BOOK VALUE OF SUBSIDIARIES (Note X)	271,073	286,133	SHAREHOLDERS' EQUITY		
OTHER ASSETS, net of amortization (Note IV)	4,631	4,204	CAPITAL STOCK		
			Authorized		
			5,000,000 shares with a par value of \$1 each		
			Issued (Note VI)		
			2,500,000 shares (net of discounts, commissions and cancellations)	763,000	275,500
SIGNED ON BEHALF OF THE BOARD			DEFICIT	4,829	—
 Director				<u>758,171</u>	<u>275,500</u>
 Director	<u>\$957,931</u>	<u>\$598,657</u>		<u>\$957,931</u>	<u>\$598,657</u>

N R D MINING LTD. (N.P.L.)
CONSOLIDATED STATEMENT OF EARNINGS AND DEFICIT
FOR THE YEAR ENDED DECEMBER 31, 1973

	1973	June 26, 1972 to December 31, 1972
SALES	\$371,905	\$ —
COST OF SALES	278,309	—
Gross margin	93,596	—
GENERAL, ADMINISTRATIVE AND SELLING EXPENSES	71,963	—
ROYALTIES	15,402	—
DEPRECIATION	4,959	—
AMORTIZATION OF EXCESS OF COST OF INVESTMENT OVER BOOK VALUE (Note X)	15,060	—
	107,384	—
Loss from operations	13,788	—
OTHER INCOME	8,959	—
NET LOSS BEING DEFICIT AT DECEMBER 31, 1973	\$ 4,829	\$ —
Loss per share	\$ 0.002	Nil
Weighted average number of shares outstanding during 1973		2,333,333

N R D MINING LTD. (N.P.L.)
CONSOLIDATED STATEMENT OF DEFERRED
EXPLORATION AND ADMINISTRATIVE EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 1973

	1973	June 26, 1972 to December 31, 1972
EXPLORATION		
Exploration and consulting	\$131,681	\$ 13,365
ADMINISTRATIVE		
Salaries	10,837	—
Travel	14,542	7,604
Legal and audit	10,397	9,711
Rent	4,901	1,884
Office and miscellaneous	8,574	1,353
Transfer fees	3,432	783
Telephone	5,789	768
Filing Fees	6,902	345
Depreciation	4,497	—
Public relations	12,695	—
Dues and subscriptions	491	—
Insurance	547	—
Interest and bank charges	653	—
	84,257	22,448
COST OF SHARE ISSUE		
Legal and audit	19,021	—
Travel	9,079	—
Filing fees	1,100	—
Printing	2,549	—
Consulting	1,000	—
	32,749	—
TOTAL EXPENDITURES DURING THE PERIOD	248,687	35,813
Balance at beginning of period	35,813	—
BALANCE AT END OF PERIOD	\$284,500	\$ 35,813

N R D MINING LTD. (N.P.L.)
CONSOLIDATED STATEMENT OF SOURCE AND
APPLICATION OF FUNDS
FOR THE YEAR ENDED DECEMBER 31, 1973

	<u>1973</u>	<u>June 26, 1972 to December 31, 1972</u>
SOURCE OF FUNDS		
Issue of capital stock — net (Note VI)	\$487,500	\$275,500
Items not requiring the use of funds		
Depreciation and amortization	9,456	—
Amortization of excess of cost over book value of subsidiaries	15,060	—
Reduction in cost of mining claims — net	7,513	—
Note payable (Note V)	—	200,000
Deferred taxes	—	24,500
Provision for mine and ore reserve development	—	9,972
	<u>519,529</u>	<u>509,972</u>
APPLICATION OF FUNDS		
Loss from operations	4,829	—
Acquisition of fixed assets	24,717	11,214
Deferred exploration and administrative expense	248,687	35,813
Reduction of mine and ore development reserve	9,972	—
Reduction of long-term debt — net	125,000	—
Purchase of investment (Note V)	39,921	286,133
Incorporation expense	1,040	4,204
Purchase of mining claims	—	37,500
	<u>454,166</u>	<u>374,864</u>
INCREASE IN WORKING CAPITAL	65,363	135,108
Working capital at beginning of period	135,108	—
WORKING CAPITAL AT END OF PERIOD	<u>\$200,471</u>	<u>\$135,108</u>

N R D MINING LTD. (N.P.L.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1973

I. BONDS

The bonds of the Honduran government are held in Honduras and have been recorded at cost, which approximates market.

II. FIXED ASSETS

Fixed assets comprise:	<u>1973</u>	<u>1972</u>
Mining equipment	\$162,132	\$158,162
Furniture and fixtures	11,865	6,822
Vehicles	17,069	8,086
Other equipment	10,680	7,355
	<u>201,746</u>	<u>180,425</u>
Less — accumulated depreciation	176,153	170,706
	25,593	9,719
Land	1,495	1,495
	<u>\$ 27,088</u>	<u>\$ 11,214</u>

All mining equipment, furniture and fixtures and other equipment of the Honduran operations, amounting to \$11,780 net of accumulated depreciation, were not insured at December 31, 1973.

III. MINING CLAIMS

The Companies' claims holdings are as follows:

	<u>Acquisition Cost</u>
1. British Columbia	
(a) TESS group — 24 claims situated on the east shore of Whiting Lake, Atlin Mining Division)	
(b) PAM group — 24 claims situated at Mile 68 on Haines Road, Atlin Mining Division)	\$ 2,762

(c) DOPP group (under option) — 64 claims near the head of Sikanni Chief River, Liard Mining Division. Under the terms of the option agreement, the option may be exercised as to an 85% interest in these claims by payment of \$5,000 prior to May 1, 1974.		<u>Acquisition Cost</u>
		\$ —
2. Yukon Territory		
(a)	ORI group — 21 claims and 2 fractions, 16 miles N.W. of Minto, Whitehorse Mining Division. These claims were acquired for 750,000 shares of capital stock at an ascribed value of 5¢ each.	\$37,500
	Subsequently, 250,000 shares were gifted back to the Company	<u>12,500</u>
		\$ 25,000
(b)	MTX group (under option) — 63 claims approximately 20 miles N.W. of Summit Lake, Watson Lake Mining Division. Under the terms of the option agreement, the option may be exercised as to an 85% interest in these claims by payment of \$5,000 prior to May 1, 1974.	—
3. Quebec		
(a)	8 claims (800 acres) — Celoron Township)	2,225
(b)	7½ claims (750 acres) — Figuery Township)	<u>\$ 29,987</u>

4. Arizona, U.S.A.

Through its wholly-owned subsidiary, National Resources Development, Inc., the Company holds 6 Prospecting Permits in Pinal County, Arizona and has re-applied as of January 24, 1974 for 8 Permits previously held on which work commitments were not completed.

5. Honduras

Through Alianza Industrial, S.A., which owns all of the shares of Compania Minera Los Angeles, S.A., the Company leases 7,284 acres 25 miles N.E. of Tegucigalpa, operates a mine therein, and owns other properties at Opeteca and Yuscaran, 71 miles N.W. and 50 miles S.E. of Tegucigalpa.

IV. OTHER ASSETS

Other assets comprise:	<u>1973</u>	<u>1972</u>
Organization costs	\$ 2,049	\$ 2,049
Incorporation costs	3,195	2,155
	<u>5,244</u>	<u>4,204</u>
Less — amortization thereof	613	—
	<u>\$ 4,631</u>	<u>\$ 4,204</u>

V. INVESTMENTS

1. Investments comprise:	<u>Ownership</u>	
Wholly-owned subsidiaries		
Alianza Industrial, S.A.	\$381,677	100%
National Resources Development, Inc.	3	100%
Sabemin, S.A.	39,921	33-1/3%
	<u>\$421,601</u>	

2. Contingent liability

- The shares of Sabemin, S.A., a Belgium company, are 25% paid up. The Company is contingently liable for the remaining 75%, amounting to \$119,763, should this be called.
- By the agreement dated November 20, 1972 whereby the Company purchased all the issued shares of Alianza Industrial, S.A., which is the beneficial owner of all the issued shares of Compania Minera Los Angeles, S.A., the Company is contingently liable as follows:

If the average net income of C.M.L.A. is not less than \$50,000 per year for either

(i) Any two consecutive fiscal years of C.M.L.A. after 1972 and prior to 1977, or

(ii) The four consecutive fiscal years of C.M.L.A. next following the year ended December 31, 1972

the Company will issue an additional 200,000 shares to the vendor.

3. Note payable

During 1973, the Company repaid the amount of \$125,000 on the note, which had formed a portion of the above purchase of Alianza Industrial, S.A., and the maturity date was extended to March 28, 1975.

The note is convertible, at the holder's option as follows:

\$25,000 at \$0.25 per share
 \$25,000 at \$0.375 per share
 \$25,000 at \$0.50 per share

Interest at 6% per annum is due on maturity. If the option to convert the note or any part thereof is exercised then interest is to be waived on that portion which has been converted. Accordingly, accrued interest amounting to \$4,500 to date, has not been reflected in the accounts.

VI. CAPITAL STOCK

Capital stock has been issued during the year as follows:

	<u>Number of Shares</u>	<u>Par Value</u>	<u>Discount</u>	<u>Commission</u>	<u>Net</u>
For cash	1,000,000	\$1,000,000	\$ 450,000	\$ 50,000	\$ 500,000
Gifted back to the Company	(250,000)	(250,000)	(237,500)	—	(12,500)
NET CHANGE DURING THE YEAR	750,000	750,000	212,500	50,000	487,500
Balance at beginning of year	<u>1,750,000</u>	<u>1,750,000</u>	<u>1,462,500</u>	<u>12,000</u>	<u>275,500</u>
BALANCE AT END OF YEAR	<u>2,500,000</u>	<u>\$2,500,000</u>	<u>\$1,675,000</u>	<u>\$ 62,000</u>	<u>\$ 763,000</u>

A total of 675,000 shares of capital stock are held in escrow subject to the order of the British Columbia and Ontario Securities Commissions.

VII. INCOME TAXES

During 1971, the sub-subsidiary, Compania Minera Los Angeles, S.A., was notified by Honduran fiscal authorities of additional income tax assessments, related to the years 1967 through 1969 amounting to approximately \$24,500, which amount has been fully provided in the financial statements. Nevertheless, the company is contesting these assessments and in the opinion of its legal counsel has some prospects for successfully defending its position. Since it is expected that the final determination in this matter will not be known before 1975, the provision for these assessments has been presented as non-current deferred income taxes.

VIII. INVENTORIES

Inventories comprise:	<u>1973</u>	<u>1972</u>
Ore concentrate	\$ 16,522	\$ 64,638
Materials and supplies	79,751	76,867
	<u>\$ 96,273</u>	<u>\$141,505</u>

The inventories were not insured at December 31, 1973.

IX. LONG-TERM LEASE

On January 1, 1972, the sub-subsidiary, Compania Minera Los Angeles, S.A., entered into a long-term lease, expiring January 1, 1992, for the exploitation of a mining zone at Valle de Angeles, Honduras, C.A., owned by the Herederos de Santos Soto. Under the terms of the contract the subsidiary must pay a royalty to the lessors based on the sales value less certain direct expenses of the ore extracted, and is obligated to make an investment of \$80,000 in the exploration and development of the mine before January 1, 1974, which latter obligation had been completely met at December 31, 1973. In addition to the royalty, the subsidiary is required to pay all property taxes, which currently are approximately \$1,100 per year.

X. ACCOUNTING POLICIES

Principles of Consolidation

The financial statements include the accounts of the wholly-owned subsidiaries, National Resources Development, Inc., a United States company, and Alianza

Industrial, S.A., a Honduran company, together with Compania Minera Los Angeles, S.A., a wholly-owned subsidiary of the latter. The financial statements are presented in Canadian dollars. The Honduran lempira has been translated at the rate of two lempiras for one dollar.

The effect of all significant intercompany transactions has been eliminated on consolidation.

Significant Accounting Policies

In accordance with the requirements of the Companies Act of British Columbia it is reported that:

- (a) The accounting policies followed by the Company and its presentation of financial information conform with generally accepted accounting principles.
- (b) The excess of the cost of investment in Alianza Industrial, S.A., over its book value at acquisition, in the amount of \$286,133, is being amortized over nineteen years, the life of the lease mentioned in Note IX.
- (c) Compensation accruing according to length of service under the terms of the Honduran Labor Code may be payable to employees in the event of dismissal. No definite liability in this respect existed at December 31, 1973, and it is the policy of Alianza Industrial, S.A. and its subsidiary to consider such severance payments as expenses of the period in which they became payable.

Statutory Information

Aggregate direct remuneration to the directors and senior officers of the Company and its subsidiaries, including those amounts for the five highest paid employees amounts to \$73,813 for the year. Aggregate remuneration of directors, as directors, was nil.

